

REPUBLIC OF KENYA



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REPORT


OF

THE AUDITOR-GENERAL

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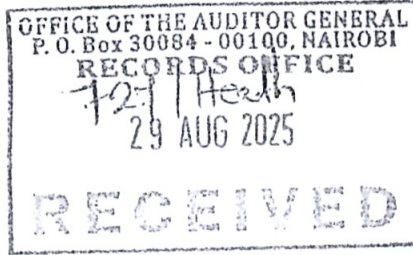
**NATIONAL QUALITY CONTROL
LABORATORY**

**FOR THE YEAR ENDED
30 JUNE, 2025**

| | |
|--|---------------------------|
|  THE NATIONAL ASSEMBLY PAPERS LAID | |
| DATE: 01 APR 2026 | DAY: WEDNESDAY |
| TABLED BY: | HON. DR. ROBERT PUKOSE MP |
| CLERK-AT THE-TABLE: | CHRISTINE NDIRITU |



REPUBLIC OF KENYA



NATIONAL QUALITY CONTROL LABORATORY

P. O. Box 29726 - 00202 (KNH) Nairobi

Tel. : 020-3544525/30

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ANNUAL REPORT AND FINANCIAL STATEMENT FOR THE FINANCIAL YEAR ENDED 30TH JUNE 2025

Prepared In accordance with the Accrual Basis of Accounting Method under International
Public Sector Accounting Standards (IPSAS)

NATIONAL QUALITY CONTROL LABORATORY
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1 Acronyms and Definition of Key Terms

A: Acronyms

AIE – Authority to Incur Expenditure
BOD – Board Of Directors
BOM – Board Of Management
CEO – Chief Executive Officer
CS – Cabinet Secretary
HPTs- Health Products and Technologies
IPSAS – International Public Sector Accounting Standards
ISO – International Organization for Standardization
MOH – Ministry Of Health
MTEF- Medium Term Expenditure Framework
NHIF – National Hospital Insurance Fund
NQCL- National Quality Control Laboratory
PPB – Pharmacy and Poisons Board
SCAC – State Corporations Advisory Committee
USTDA- United States Trade and Development Authority
VAT- Value Added Tax

B: Definition of Key Terms

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Comparative Year: Financial Year 2023/ 2024

Key Entity Information and Management

(a) Background Information

The National Quality Control Laboratory (NQCL) was established under section 35D of the Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya) on the 28th October, 1992 and came into operation on 06th November, 1992. The Laboratory is domiciled in Kenya with no branches currently.

(b) Principal Activities

The Laboratory, under the Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya), has the following mandate:

1. Examine and test medicines and any material or substance from which or with which and the manner in which medicines may be manufactured, processed or treated and ensure the quality control of medicines and medicinal substances;
2. Perform chemical, biological, biochemical, physiological and pharmacological analysis and other pharmaceutical evaluation;
3. Test, on behalf of the Government, of locally manufactured and imported medicines or medicinal substances with a view to determine whether such medicines or medicinal substances comply with Cap 244;
4. To provide advisory services to the Ministry of Health on medicines quality standard;

(c) Key Management

The *Entity's* day-to-day management is under the following key organs:

- Board of Management
- The director / CEO who is also the accounting officer.
- Management

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(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2025 and who had direct fiduciary responsibility were:

The Board of Management

| Ref | Directors | Date Of Birth | Key Qualifications | |
|-----|---------------------------------------|---------------|----------------------------------|-------------|
| 1. | Dr. John Ndiritu Muturi | 20/10/1974 | Pharmacist | Independent |
| 2. | Dr. Micheal Walekhwa Nyongesa | 11/04/1983 | Medical Laboratory Services | Independent |
| 3. | Dr. Mark Peter Kita Odero | 21/01/1988 | Analytical Chemistry | Independent |
| 4. | Mr. Zenith Ouma Omollo | 05/08/1983 | Corporate Governance | Independent |
| 5. | Mr. Nicodemus Kisengese | 5/12/1978 | Clinical Researcher | Independent |
| 6. | CPA Flora Mighulo Maghanga Mtuweta | 27/05/1967 | Finance and Administration | Independent |
| 7. | Ms. Fatma Ibrahim Yunis | 17/09/1987 | Law | Independent |
| 8. | Mr. Anthony Ndegwa Nderitu | 06/02/1977 | Accountant, Audit and Finance | Independent |

Finance committee

| No. | Designation | Name |
|-----|-------------|------------------------------------|
| | Chairman | Mr. Nicodemus Kisengese |
| | Member | CPA Flora Mighulo Maghanga Mtuweta |
| | Member | Mr. Anthony Ndegwa Nderitu |

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Audit and Risk Committee

| No. | Designation | Name |
|-----|-------------|----------------------------|
| 1. | Chairman | Mr. Zeith Omolo |
| 2. | Member | Mr. Anthony Ndegwa Nderitu |
| 3. | Member | Ms. Fatma Ibrahim Yunis |

Human Resource Committee

| No. | Designation | Name |
|-----|-------------|-------------------------------|
| 1. | Chairman | Dr. Mark Peter Kita Odera |
| 2. | Member | Ms. Fatma Ibrahim Yunis |
| 3. | Member | Dr. Micheal Walekhwa Nyongesa |

Technical Committee

| No. | Designation | Name |
|-----|-------------|-------------------------------|
| 1. | Chairman | Dr. Micheal Walekhwa Nyongesa |
| 2. | Member | Mr. Nicodemus Kisengese |
| 3. | Member | Zeith Omollo |

(Include all positions regarded as top management in your organisation as per your organisational structure).

(e) Fiduciary Oversight Arrangements

Here, provide a high-level description of the key fiduciary oversight arrangements covering (say):

- Audit and Risk Committee

| No. | Designation | Name |
|-----|---|---------------|
| 1. | Head Internal Audit | Peter Shibira |
| 2. | Head of Quality Assurance and risk management | Kennedy Ruto |

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(f) Entity Headquarters

P.O. Box 29726 -00202

KNH,Complex

Hospital Road

Nairobi, KENYA

(g) Entity Contacts

Telephone: (254)- 020 - 3544525/30

E-mail: info@nqcl.go.ke

Website: www.nqcl.go.ke

(h) Entity Bankers

National Bank

Hill Plaza Branch

P.O. Box 45219 - 00100

NAIROBI, KENYA

(i) Independent Auditors

Auditor-General

Office of the Auditor General

Anniversary Towers, University Way

P.O. Box 30084

GPO 00100

Nairobi, Kenya

(j) Principal Legal Adviser

The Attorney General

State Law Office and Department of Justice

Harambee Avenue




P.O. Box 40112

City Square 00200



Nairobi, Kenya

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3. Management Team

| | Key manager's passport-size photo | Name – Designation | Professional/ Academic Qualification | Main Responsibility |
|----|---|--|--|----------------------------------|
| 1. | | Dr Sultani Matendechero | Ag. CEO - ndc | Ag. Director |
| 2. |  | Dr. Mathayo Kwena– Asistant Chief Pharmacist | M.Pharm, BPharm; MPSK | Head of Research and training |
| 3. |  | Dr. Rebecca Manani Assistant Chief Pharmacist | Msc; BPharm; BPharm; MPSK | Deputy Director. |
| 4. |  | Dr. Peter Ngumo - Assistant Chief Pharmacist | MPharm, BPharm; MPSK | Head Wet Chemistry Unit |

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| | | | | |
|----|---|--------------------|--|-------------------------|
| 5. |  | Kennedy Rutto | BSc. Chemistry | Quality Assurance |
| 6. |  | Ruth Ndanyo | MSc. Molecular Biology | Head of Biological Unit |
| 7. | | Margret Wahu | BSc. Supply Chain Management | Head of Procurement |
| 8. | | Peter Shibira | B. Com(Finance), CPA-K | Head Of Internal Audit |
| 9. | | Merceline Adhiambo | MBA - Finance, BCOM -Accounting Diploma In Accountancy | Finance |

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1. Chairman's Statement

The National Quality Control Laboratory (NQCL) is a government laboratory established by an Act of Parliament. It has evolved into a respected centre of excellence in the quality control of medicines and medical devices. As a WHO-prequalified and ISO 17025:2017 accredited laboratory, NQCL plays a critical role in ensuring that Health Products and Technologies meet the necessary standards and regulatory requirements, thereby directly contributing to the health and well-being of Kenyan citizens which is a pillar in the Governments agenda of Universal Health Coverage. Our strategic goal is to achieve self-reliance in managing and utilizing resources within the next few years. This annual report highlights our progress in aligning with current government and public expectations, contributing to Kenya's economy by fostering a healthier nation. We recognize that other laboratories have been tasked with similar responsibilities in the past. However, our strategic plan focuses on mobilizing resources and building the necessary capacity to offer reliable services within preferred timelines. This approach will help us attract and maintain strong partnerships in our mission. Some of the notable achievements so far include:

Board Appointments

A significant milestone was achieved earlier in the year with the appointment of a fully-fledged board on the 24th of May 2024 that was later inaugurated on the 7th of June 2024 led by a substantive chairperson. The Pharmacy and Poisons Board selected individuals with diverse expertise, forming a team full of fresh ideas to propel NQCL to new heights. The Board has shown unwavering dedication to fulfilling its mandate.

Partnerships and collaborative frameworks

We are grateful for the support received from various partners, both technically and financially. The Global Fund has funded several activities geared towards capacity building of the technical staff in light of Institutional Development plans being implemented towards the attainment of Maturity Level 3 requirements (ML3) as identified through the WHO Global Bench marking Tool. We extend our appreciation to the current Acting Director, Dr. Sultani Matendecheo, for his positive energy and deep institutional knowledge, which are invaluable in steering NQCL toward greater success.

NQCL has successfully become a full-fledged SAGA having obtained its approved Human resource Instruments and budget allocation. With those two in place, NQCL Board will be the driver in addressing a number of challenges that have plagued NQCL including the Human resource challenges and technological advancements.



.....
Dr. John Muturi
Chairman - BOM

Date: 30/6/2025

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2. Report of the Chief Executive Officer

The National Quality Control Laboratory is a Semi-Autonomous Government Agency established under CAP 244 Sec. 35D Laws of Kenya (1992 Amendment). It was recognized as a Semi-Autonomous Government Agency (SAGA) in the Ministry of Health on 11th February, 2016. Further, the State Corporations Advisory Committee (SCAC) categorised it in category PC 4B and advised the Ministry of Health to embark on the activity of categorization.

The Laboratory continues to receive its budgetary allocation through the Ministry of Health under the Vote Head 1081000900. The NQCL generates income from sample analysis fees of drugs for Government institutions as well as private pharmaceutical firms. The income generated supplements the recurrent and development budget the Government gives to the Laboratory through the Ministry of Health.

The funds generated and allocated are utilized for the procurement of chemicals, reagents, glassware, related apparatus and additional equipment and for remuneration of contracted staff members. These items are vital in ensuring the institution continues to meet the current good practices for pharmaceutical quality control laboratories and the ISO 17025:2017 accreditation for testing laboratories Kenya Accreditation Services.

The Laboratory has two categories of staff among its personnel. The first category comprises civil servants deployed to the institution by the Ministry of Health. This includes pharmacists, supply chain management assistant and biomedical engineers. The second category consists of staff contracted by the Board of Management for a renewable contract. These include laboratory technicians, accounts assistant, supply chain management assistants, an executive secretary, laboratory assistants and a documentation clerk. The laboratory also engages interns and students on attachment who gain on the job learning as part of the Government policy on training.

In the financial year under review, the laboratory was not able to utilize its allocation for the vote head from The National Treasury through the Ministry of Health where the vote head is administered at the headquarters at Afya house. The Laboratory further faces challenges in the course of implementing its mandate.

The fragmentation of testing in Kenya has resulted in a drastic drop in samples and revenue. The mandate of keeping a data bank on the quality of medicines should be enforced by having all quality control laboratories in the country work under the collaboration of NQCL to ensure a single data stream. This will also steady the stream of analysis samples coming to NQCL which is its current source of income.



Dr. Sultani Matendechero

Ag. Director,

Date 30/06/ 2025

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3. Statement of Performance against Predetermined Objectives for FY 2024/25

National Quality Control Laboratory has 5 strategic pillars/ themes/issues and objectives within the current Strategic Plan for the FY 2022- FY 2027. These strategic pillars/ themes/ issues are as follows:

Pillar /theme/issue 1: Delivering on the laboratory's core mandate

Pillar/theme/issue 2: Enhancing the governance structures

Pillar/theme/issue 3: Investing in human resource

Pillar/theme/issue 4: Developing institutional infrastructure & profile

Pillar/theme/issue 5: Mobilizing resources for sustainability

National Quality Control Laboratory (*NQCL*) develops its annual work plans based on the above *five* pillars/Themes/Issues. Assessment of the Board's performance against its annual work plan should be done on a quarterly basis. Currently the reports are done quarterly and submitted to the M.O.H. NQCL achieved its performance targets set for the FY 2024-2025 period for its five strategic pillars, as indicated in the diagram below

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| Strategic Priority | Strategic Objectives | Key Strategies | Achievements |
|---|--|--|---|
| Delivering on the laboratory's core mandate | 1. Broaden the offering of HPTs' quality testing | Expansion of offering to cover all Health Products and Technologies (to include medical devices, herbal products, vaccines, and other biologics). | National Quality Control Laboratory is in the process of acquiring necessary resources in preparation to start testing Vaccines from BIOVAX Ltd. |
| | 2. Grow the market share of HPTs (including medical devices) in the country tested by NQCL to 100% by the end of the plan period (samples tested on behalf of Government). | Spearhead is an enabling operating context for NQCL to be the go-to option for HPTs testing. | This financial year NQCL was able to test 80% of total samples that were brought for testing as at 30th June 2025. NQCL is now working towards getting all HPTs to be tested here. |
| | 3. Establish a Training and Research hub to position NQCL as a regional trends' setter (centre of excellence). | Establish a Training and Research Unit | NQCL has started by offering training to university students on attachment and also to other east African countries Like Uganda. Research department has also been established in the organization structure. |
| | 4. Establish and implement a database/knowledge repository for the quality of HPTs in the country | Partner with relevant stakeholders (Ministry of Health (PPB, KEMSA, programs) and other entities to ensure coverage of full scope (analysis, GMP and database maintenance) | This has not started yet due to limited funding. |
| Enhancing the governance structures | 1. To improve decision-making and effective implementation of NQCL's mandate | Operationalize NQCL as a state corporation under MoH. | NQCL has been fully operationalized. |
| | | Build the capacity of the Board in line with the Mwongozo code. | The Board of Directors was appointed and induction training was done. |
| Investing in the human resource | 1. Attract and retain highly skilled staff | Update and implement an appropriate organisation structure | Approved organization structure is in place but employment has not been done due to lack of funds. |

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| | | | |
|---|--|---|---|
| | | Review, update and implement a scheme of service | Human Resource instruments already written and approved by Public Service Commission. This will improve the scheme of service. |
| | | Enhance staff capacity and skills | We have allocated some funds on staff training in our budget |
| | | Increase staff engagement and motivation | When the HR instruments are implemented, there will be an increase in salary and job security. This will motivate staff. NQCL has acquired a few new equipment that makes the staff work faster and this also motivates them. |
| | 2. Promote a strong value-based and performance-driven organisational culture | Initiate culture formation interventions | Have prepared and started having monthly staff meetings where issues on performance are discussed. |
| | | Mainstream M & E in NQCL's management practices | This in process |
| | | Align GoK performance contract goals to the SP | Performance contract signed with the MOH |
| Developing institutional infrastructure and profile | 1. Construct and equip an ultra-modern laboratory/campus. | | NQCL is partnering with USTDA to do a feasibility study on NQCL and write BQs for renovations and construction of a new lab. |
| | | Construct and equip the ultra-modern campus with the mobilised resources. | Construction has not yet started |
| | 2. Enhance the institutional Information Communication and Technology (ICT) capacity | Automate NQCL's operations (Enterprise Resource Planning (ERP) system, Laboratory Information Management System (LIMS). | This is in the process. |
| | 3. Enhance NQCL's official transport capacity | Acquire 4 motor vehicles | Purchase of motor vehicle has been included in the procurement plan for the World bank project, and it is in the process. |
| | 4. Improve NQCL's corporate image | Rebrand NQCL | This is yet to be done |

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| | | | |
|---|--|--|---|
| | | Conduct sensitization and public awareness campaigns | This has been done. NQCL staff has attended one conferences and public awareness campaigns this year. |
| | | Develop and implement risk-management systems | This is already happening through QA department |
| Mobilising resources for sustainability | 1. Pursue the Laboratory's autonomy in financial allocation as a State Corporation | Lobby with relevant decision-makers towards the full implementation of CAP 244 (SCAC, PBB, MoH, etc) for financial autonomy. | This has been achieved NQCL is a SAGA with its budget allocation coming as a grant from next financial year. |
| | | Establish 's own governance structures that enable operating as a state corporation | We have a new organisation structure with all relevant positions and also We have approved HR instruments |
| | 2. Expand the client base and decentralised services | Collaborate with PPB to establish regional (county) presence. . | This is yet to begin |
| | 3. Increase revenue by 30% annually YoY | Improve the quality of rendered services. | This is not yet achieved |
| | | Conduct a pricing review. | This is already done. The new prices were gazette. |
| | | Leverage existing data on quality of pharmaceuticals through publications. | This is was done but in collaboration with other organisations |
| | | Accelerate marketing of the laboratory services. | This is yet to begin |
| | 4. Mainstream partnerships and collaborations' development at NQCL | Establish strategic partnerships and collaborations | We already have two partners on board. World Bank through the Africa East Health Emergency Preparedness Response and Resilience Project - KENYA P180127, which is funding NQCL to achieve ML3. The second partner is USTDA, this one is funding NQCL to come with the BQs for revocations and construction of the new Laboratory. |

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4. Corporate Governance Statement

Number of Board Meetings Held

The Board of Management was appointed in May 2024 and held its inaugural meeting in June 2024. During financial year 2024/2025 the Board of Directors held three meetings.

Process of Appointment and Removal of Directors

Cap 244 Laws of Kenya Section 35F allows for the creation of a Board of Directors for the Laboratory. The board should consist of (9) nine members and the Chairperson to be appointed by the president of the Republic of Kenya. A member of the BOD appointed shall hold office for three years but shall be eligible for re-appointment, but not for more than 2 terms. A quorum of the BOD shall be five members and the members shall meet not less than four times each calendar year.

Board Remuneration

Each member shall receive a sitting allowance of Kshs. 20,000.00, less tax for every meeting and a further allowance for lunch of Kshs. 2,000 when required. The chairman of the Board of Management is entitled to a honoraria of Kes 80,000 per month. The Director shall be the secretary of the Board of Management.

Roles and Functions of the Board

Section 35G highlights the functions of the BOD, which include:

- a. Administer the property and funds of the Laboratory in such manner and for such purposes as shall, in their opinion, promote its best interests;
- b. Receive, on behalf of the Laboratory, grants-in-aid, gifts, donations, fees, subscriptions or other moneys and make disbursements therefrom;
- c. Make regulations governing the appointment, conduct and discipline of employees of the Laboratory;
- d. In consultation with the Cabinet Secretary (CS) Health, draw up a scheme of service for employees of the Laboratory;
- e. Administer the approved terms and conditions of service, including appointments, dismissals, remuneration and retiring benefits of employees of the Laboratory; and
- f. Appoint such employees upon terms and conditions to be laid down by them, after consultation with the CS Health, as it considers necessary for the proper and efficient administration of the Laboratory.

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Training and Induction

The new board was recruited competitively as governed by SCAC and gazetted on 24th of May 2024. The BOM underwent training on the Mwongozo Code of Governance, as it is anchored in the Constitution of Kenya, 2010.

Ethics and Conduct

National Quality Control Laboratory was categorised as PC 4B by SCAC in the year 2016. Currently it is recognized as a Semi – Autonomous Government Agency that performs a regulatory duty on medicines and health technologies under the Ministry of Health. As a testing and inspecting facility, the Laboratory continues to uphold its corporate values of Staff, Environment, Integrity & Patriotism, Technology, Standards, Commitment to customer services, Quality Service and Team & Individual Productivity.

Conflict of Interest

To avoid conflicts of interest, pressures and influences, the BOD will be bound by the provisions of Public Officers Ethics Act Cap 183 and the Laboratory's conflict of interest policy. Two core concepts are embodied in these regulations; BOD members shall not use public office for private gain nor act impartially and give preferential treatment to any private organisation or individual. A conflict of interest form within the quality management system of the Laboratory is available to document this when necessary.

5. Management Discussion and Analysis

During financial Year 2024/2025 NQCL registered a drop in AIA collection. This was due to a drop in number of samples brought to NQCL for testing. This led to budget deficit and increase in trade payables.

In the Kenya Kwanza government manifesto, manufacturing has been given priority. One of the items mentioned is manufacturing of pharmaceuticals and medical supplies. It is on that note that BIOVAX has been established, and it has a mandate to produce vaccines locally. When the vaccines will be produced, the lot release will require to be tested at NQCL. Therefore, NQCL future developments include attainment of Maturity Level 3 requirements in preparedness to test locally produced vaccines. However, with the expanded scope of testing the locally manufactured vaccines, NQCL will require an increase in exchequer budget allocation to be able to meet its financial obligations in future.

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As NQCL works towards attaining its best, there are challenges and risks the organisation is likely to face. The risks that may be faced are Legal risk, Governance risk, operations risks and financial risks. The risks affect operations and performance at NQCL.

Environmental and Sustainability Reporting

The National Quality Control Laboratory has a mandate to protect the lives of Kenyans by testing all Health Products and technologies on behalf of the government. When implementing its mandate, make sure of protecting the environment from pollution by making sure that the waste generated is well disposed according to the requirements. NQCL has also participated in tree planting campaigns and planted trees on their land and West Pokot together with the Ministry of Health.

i) Sustainability strategy and profile

National Quality Control Laboratory being a government entity, our first sustainability strategy is participating in the government budgeting process (MTEF) so that we also receive some budget allocation from the government. Our second sustainability strategy is writing proposals for funding from development partners. Then we have another strategy of increasing our revenue by expanding our scope of testing. NQCL is preparing to start testing vaccines and alternative medicines in the country. In addition to that, NQCL intends to expand its revenue base by characterization of Reference Standards and selling. Apart from that NQCL intends to expand its offices to other regions this will help increase our client base hence increasing revenue. This has been articulated in the strategic plan.

Our key achievements include getting our HR instruments approved and a salary structure from SRC. NQCL has been fully operationalized with Next year's budget allocation being converted into a grant.

Some of our failures include drop in revenue collection this financial year and also lack of enough staff members. NQCL has been unable to employ enough staff and even the few employed are not fairly remunerated. Inability to acquire new equipment for the laboratory is also another failure.

ii) Environmental performance

National quality control laboratory being a health products and technologies testing lab, environmental safeguards must be in place. The laboratory has made sure the environment is safe by subscribing to the WHO prequalification guidelines for Good Practices for Pharmaceutical Quality Control Laboratories. In addition to that, NQCL has also received ISO / IEC 17025 accreditation as a testing facility. However NQCL is having a challenge of not having an incinerator and therefore

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incineration services are contracted through Pharmacy and Poisons Board. NQCL has also participated in tree planting campaigns and planted trees on their land for conservation of our environment.

iii) Employee welfare

Most of the staff at NQCL was hired on contract basis using a scheme of service. The two thirds rule was observed because we have 13 female employees against 16 Male employees. The staff improves their skills through attending on job training and also attending seminars. A staff training schedule is in place to make sure that at least each employee gets some on job training. Also online training is encouraged since it is cheap and affordable. To motivate staff members, staff appraisal has been introduced and using the appraisal report the management will be able to reward and reprimand where necessary. NQCL being a testing laboratory, a quality assurance department that takes care of documenting possible risks in the lab. The risks are communicated and mitigated. NQCL has registered its staff with SHA and the deductions are remitted monthly.

Marketplace practices-

The organization should outline its efforts to:

a) Responsible competition practice.

Explain how the organisation ensures responsible competition practices with issues like anti-corruption, responsible political involvement, fair competition and respect for competitors.

Procurement is done based mostly on quotation basis. This promotes competition and the suppliers with the best prices win. Pre-qualification of suppliers and even opening and awarding of quotations are done by a committee of several members which minimises the possibility of corruption. The National Quality Control Laboratory does not have political involvement since it is a public institution.

b) Responsible Supply chain and supplier relations

Explain how the organization maintains good business practices, treats its own suppliers responsibly by honoring contracts and respecting payment practices.

Even though funds are not always available, National quality Control Laboratory treats its suppliers responsibly by paying them whenever funds are available. NQCL also avoids unnecessary over staying with its bills.

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c) **Responsible marketing and advertisement**

d) National Quality Control Laboratory has an official Website where one can get information concerning it. The website is open to the public at any time.

e) **Product stewardship**

NQCL tests Medicines and health products and technologies to ensure that all the medicines in our hospitals and pharmacies are of good quality and standards. The tests are done to protect and ensure the safety of the citizens against poor quality medicines.

iv) **Corporate Social Responsibility / Community Engagements**

National Quality Control Laboratory being a testing lab, it offers corporate social responsibility/ community engagements by participating in tree planting as directed by the President of Kenya

Community service activity by National Quality Control Laboratory.

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6. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2025, which show the state of the *Entity's* affairs.

i) Principal activities

The principal activities of the Entity are;

- Examine and test medicines; on behalf of the Government, locally manufactured and imported medicines or medicinal substances;
- Perform chemical, biological, biochemical, physiological, pharmacological analysis and other pharmaceutical evaluation;
- Provide advisory services to the Ministry of Health on medicines quality standards; and
- Carry out Good Manufacturing Practices (GMP) inspections in pharmaceutical manufacturing industry premises and issue certificates of compliance on the same.

The Laboratory has also expanded its testing capacity to include the testing of medical devices such as male & female latex condoms, gloves, needles and syringes.

ii) Results

The results of the Entity for the year ended June 30, 2025, are set out on page 12 to 24

iii) Directors

NQCL has an acting director who is also the CEO plus 8 Board Members.

iv) Surplus remission

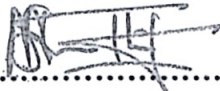
In accordance with Regulation 219 (2) of the Public Financial Management (National Government) Regulations, regulatory entities shall remit into the Consolidated Fund, ninety per cent of its surplus funds reported in the audited financial statements after the end of each financial year.

NQCL remitted Kshs Nil (FY 2023/2024) Kshs Nil. The Entity did not make any surplus during the year (FY 2024/2025 Kshs Nil) and hence no remittance to the Consolidated Fund.

v) Auditors

The Auditor-General is responsible for the statutory audit of the *National Quality Control Laboratory* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



Name: Dr Sultani Matendehero

Corporate Secretary/Secretary to the Board

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

7. Statement of Director's Responsibilities

Section 81 of the Public Finance Management Act, 2012 and Pharmacy and Poisons Amendment Act of 1992 (Cap 244, Laws of Kenya) require the Director to prepare financial statements in respect of that Laboratory, which give a true and fair view of the state of affairs of the Laboratory at the end of the financial year and the operating results of the Laboratory for that year/period. The Director is also required to ensure that the Laboratory keeps proper accounting records which disclose with reasonable accuracy the financial position of the Laboratory. The Director is also responsible for safeguarding the assets of the Laboratory. .

The Director is responsible for the preparation and presentation of the Laboratory's financial statements, which give a true and fair view of the state of affairs of the Laboratory for and as at the end of the financial year ended on June 30, 2025. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Laboratory; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the Laboratory; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Director accept responsibility for the Laboratory's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Pharmacy and Poisons (Amendment) Act of 1992 (Cap 244, Laws of Kenya). The Director is of the opinion that the Laboratory's financial statements give a true and fair view of the state of Laboratory's transactions during the financial year ended June 30, 2025, and of the Laboratory's financial position as at that date.

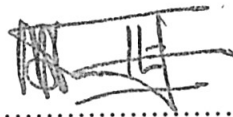
The Director further confirms the completeness of the accounting records maintained for the Laboratory, which have been relied upon in the preparation of the National Quality Control Laboratory's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Director to indicate that the Laboratory will not remain a going concern for at least the next twelve months from the date of this statement.

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

Approval of the financial statements

The Laboratory's financial statements are approved and signed by the Chairperson of the Board and the Ag. Director and Secretary to the Board of Directors.



.....
Name Dr. John Muturi

.....
Name: Dr. Sultani Matendehero

Chairperson of the Board/Council

Accounting Officer

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL QUALITY CONTROL LABORATORY FOR THE YEAR ENDED 30 JUNE, 2025

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements;
- B. Report on Lawfulness and Effectiveness in the Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure the Government achieves value for money and that such funds are applied for the intended purpose; and,
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An Adverse Opinion is issued when the Auditor-General determines that the financial statements are materially misstated and are not fairly presented in accordance with the applicable financial reporting framework. The Report on the Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Quality Control Laboratory set out on pages 24 to 75 which comprise of the statement of financial position as at 30 June, 2025 and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following inaccuracies and variances in the financial statements:

1.1. Unreconciled Variances in the Statement of Cashflows

The statement of cash flows reflects cash and cash equivalent balance of Kshs.218,815 for the year under review. The following unsatisfactory issues were noted;

- i. The 2023/2024 comparative column in the 2024/2025 financial statements reflects net cashflows used in operating activities of Kshs.45,470,798 while the 2023/2024 audited financial statements reflects a balance of Kshs.52,490,728 resulting to a variance of Kshs.7,019,930.
- ii. The 2023/2024 comparative column in the 2024/2025 financial statements reflects net increase/decrease in cash and cash equivalents of Kshs.31,279,641 while the 2023/2024 audited financial statements reflects a balance of 44,472,673 resulting to a variance of Kshs13,193,032.
- iii. The statement of cash flows reflects net cash flow from operating activities of Kshs11,152,867 and Kshs.45,470,798 in 2024/2025 and 2023/2024 financial years respectively. However, Note 23 reflects net cash flow from operating activities of Kshs.(2,280,625) and Kshs.40,424,171 resulting to variances of Kshs13,433,492 and Kshs.5,046,627 respectively.
- iv. The statement of cash flows reflects cash and cash equivalent balance of Kshs.37,419,243 in the 2023/2024 comparative column. However, the statement of cash flows in the 2023/2024 audited financial statements reflects cash and cash equivalent balance as at 30 June 2024 of Kshs.409,394 resulting to a variance of Kshs.37,009.846.

- v. The statement of cash flows reflects cash and cash equivalent of Kshs.37,419,243 as at 30 June, 2024 and cash and cash equivalent balance brought forward 1 July, 2024 in the 2024/2025 financial year column of Kshs.(2,499,441) resulting to a variance of Kshs.39,918,684.
- vi. The statement of cashflows reflects cash and cash equivalent brought forward on 1 July, 2024 of Kshs.(2,499,441) in the 2024/2025 financial year column while the 2023/2024 audited financial statements reflects a balance of Kshs.409,394 as at 30 June, 2024 resulting to a variance of Kshs.2,908,835
- vii. The statement of cashflows reflects cash generated from operations of Kshs.11,152,867 while Note 23 to the financial statements reflects net cash flows from operating activities of Kshs.(2,280,625) resulting to a variance of Kshs.3,433,492..

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.218,815 could not be confirmed.

1.2. Variance in Revenue from Rendering of Services

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from rendering of services of Kshs.51,326,020 which includes service fees of Kshs.50,069,021 that differs with the ledger amount of Kshs.48,191,217 resulting to a variance of Kshs.1,877,802. Further, note 7 to the financial statement reflects total revenue from exchange transactions of Kshs.51,326,020 which differs with the recomputed amount of Kshs.50,789,520 resulting to a variance of Kshs.536,499.

In the circumstances, the accuracy and completeness of revenue from rendering of services balance of Kshs.51,326,020 could not be confirmed.

2. Unsupported Donations.

The statement of financial performance and as disclosed in Note 6 to the financial statements reflects revenue from non-Exchange transaction of Kshs.10,199,395. However, the balance was not supported by a ledger/support documents contrary to Section 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of donations of Kshs.10,199,395 could not be confirmed.

3. Employee Cost

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 which includes salaries and wages of Kshs.23,540,126. The following unsatisfactory issues were noted;

i. Understatement of Employee Costs

Audit verification of the payrolls and ledger provided for audit revealed that statutory deductions of Kshs.204,714 were not included in the ledgers and thus understating the employee costs.

ii. Misclassification of Employee Costs

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 during the year under review. However, audit verification of the ledger and payment vouchers revealed that Pay As You Earn (PAYE) in respect to board of management allowances of Kshs.301,000 was wrongly classified as employee costs instead of board expenses.

Further, included in the employee cost of Kshs.26,005,118 which includes Kshs140,000 relating to chairman's honoraria which was wrongly classified as employee costs instead of board expenses.

In addition, included in the employee cost of Kshs.26,005,118 is salary advanced to an officer of Kshs.223,600 which should have been recognized under receivables in the statement of financial position.

In the circumstances, the accuracy and completeness of employees cost of Kshs.26,005,118 could not be confirmed.

4. Use of Goods and Services, Board Expenses and Repairs and Maintenance

i. Variance Between Financial Statement and Ledgers

The statement of financial performance and as disclosed in Note 8,10 and 12 to the financial statements reflects use of goods and services, board expenses and repair and maintenance balances of Kshs.28,008,002, Kshs.3,332,823 and Kshs.2,120,458 respectively. However, review of the financial statements and the ledgers revealed a variance of Kshs.2,284,560, Kshs.112,000 and (Kshs.802,000) as shown below;

| Expenditure items | Financial statements balance (Kshs) | Ledger balance (Kshs) | Difference (Kshs) |
|---|--|------------------------------|--------------------------|
| Travel subsistence and other allowances | 6,201,625 | 6,036,053 | 165,572 |
| Consumables | 3,507,539 | 1,341,601 | 2,165,938 |
| Trainings | 334,002 | 687,602 | (353,600) |

| Expenditure items | Financial statements balance (Kshs) | Ledger balance (Kshs) | Difference (Kshs) |
|--------------------------|--|------------------------------|--------------------------|
| Chemicals | 4,857,461 | 4,550,811 | 306,649 |
| Total | 14,900,627 | 12,616,067 | 2,284,560 |
| Board Expenses | 3,332,823 | 3,220,823 | 112,000 |
| Repairs and maintenance | 2,120,458 | 2,922,458 | (802,000) |

In the circumstances, the accuracy and completeness of use of goods and services, board expenses, repair and maintenance balances of Kshs.28,008,002, Kshs.3,332,823 and Kshs.2,120,458 respectively could not be confirmed.

ii. Unsupported Travel, Subsistence and Other Allowances

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes travel, subsistence and other allowances of Kshs.6,201,625, out of which expenditure of Kshs.3,465,550 was not properly supported due to lack of imprest warrants and evidence of travel contrary to Section 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides every entry in the accounts shall be supported by a voucher or other approved document gazette by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of travel, subsistence and other Allowances of Kshs.6,201,625 could not be confirmed.

iii. Unsupported Utilities Expenditure

The statement of financial performance and as disclosed in Note 8 to the financial statement reflects the use of goods and services of Kshs.28,008,002 which includes utilities expenses of Kshs1,346,274 which not supported by general ledger/schedules.

Further, audit verification revealed that the Laboratory received its electricity supply from Kenyatta National Hospital (KNH) which uses sub meters to determine the electricity consumed by the Laboratory. However, the sub meter readings to support the electricity charged to the Laboratory by KNH during the year was not provided for audit verification contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations 2015 provides every entry in the accounts shall be supported by a voucher

or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of utilities expenditure of Kshs.1,346,274 could not be confirmed.

iv. Unsupported Training Expenditures

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods of Kshs.28,008,002 which includes training expenditure of Kshs.334,002, out of which expenditures of Kshs.353,600 were not supported with payment vouchers contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations 2015 which provides that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of training expenditure of Kshs.334,002 could not be confirmed.

v. Unsupported Chemical Expenditure

The statement of financial performance and as disclosed in note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes chemical expenses of Kshs.4,857,461. However, included in the chemical expenditure balance is Kshs.3,440,695 which was not supported by payment vouchers contrary to Section 104(1) of the Public Finance Regulation which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of chemical expenditure of Kshs.4,857,461 could not be confirmed.

vi. Unsupported Donations

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002 which includes donations of Kshs.8,853,121 which were not supported with ledgers and other support documents contrary to Regulation 104(1) of Public Finance Management (National Government) Regulations 2015 which states that all receipts and payments voucher of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of donations of Kshs.8,853,121 could not be confirmed.

vii. Under Statement of Board Expenses

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects board expenses of Kshs.3,332,823. Audit verification of the payment vouchers provided for audit revealed that tax deducted from board of management allowances of Kshs.980,000 was not included in the board expenses.

In the circumstances, the accuracy and completeness of board expenses of Kshs3,323,823 could not be confirmed.

viii. Unsupported Repairs and Maintenance Expense

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects repairs and maintenance of Kshs.2,120,458. However, support documents for the pending bills of Kshs.1,463,113 included in the ledger was not provided for audit verification contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of repair and maintenance expenditure of Kshs.2,120,458 could not be confirmed.

5. Non-Disclosure of Depreciation and Amortization Method and Rates Applied in the Financial Statements

The statement of financial performance and as disclosed in Note 19 to the financial statements reflects depreciation and amortization expense of Kshs.14,915,731. However, the Management did not disclose the depreciation and amortization method and rates applied for the year contrary to Paragraph 69 of IPSAS 45 which states that the financial statements shall disclose the depreciation methods and rates used in determination of depreciation and amortization balances. Further, the depreciation charge for the year the computers and other assets and Laboratory equipment of Kshs.1,075,872 and Kshs.13,757,041 is unusually high compared to the asset cost of Kshs.1,152,072 and Kshs.16,150,444 respectively.

Further, depreciation was inconsistently calculated using both straight line and reducing balance methods of depreciation.

In the circumstances, the accuracy and completeness of depreciation and amortization expenses of Kshs.14,915,731 could not be confirmed.

6. Receivables from Exchange Transactions

The statement of financial position reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. However, the following unsatisfactory issues were noted;

i. Variance Between Statement of Financial Position and Notes to the Financial Statement

The statement of financial position reflects receivables from exchange transactions balance of Kshs.34,236,699 and was referenced to Note 15(a) to the financial statements and reflects a balance of Kshs.28,223,579 resulting to a variance of Kshs.6,013,120 during the year under review.

Further, the statement of financial position reflects a nil balance under non-current assets receivables from exchange transactions which differs with Note 15(b) to the financial statements non-current receivables from exchange transactions (Long term) balance of Kshs.34,236,699 resulting to unexplained variance of Kshs.34,236,699.

In the circumstances, the accuracy and completeness of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

ii. Unsupported Receivables from Exchange Transactions

The statement of financial position and as disclosed in Note 15b to the financial statements reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. However, the balance was not supported by customer ledgers contrary to Regulation 64(6) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer or receiver of revenue or collector of revenue shall ensure adequate books of accounts are kept relating to revenue collection and management.

In the circumstances, the accuracy, completeness and existence of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

iii. Long Outstanding Receivable from Exchange Transactions

The statement of financial position and as disclosed in Note 15(b) to the financial statements reflects receivables from exchange transaction balance of Kshs.34,236,699 during the year under review. Included in the balance is long outstanding KEMSA debt of Kshs.6,013,120 which has been outstanding for more than eighteen (18) years contrary to regulation 64(2) of Public Finance Management (National Government) Regulation, 2015 which states that an accounting Officer or receiver of revenue who experiences difficulty in collecting revenues due to the national government shall report the circumstances to the Cabinet Secretary without delay. Further, the amount was not supported by a customer Ledger.

In addition, receivables of Kshs.28,709,106 has been outstanding for more than one year with no agreed payment plan contrary to Section 83(2)(g) of the Public Finance Management (National Government) Regulations, 2015 which states that it is the responsibility and duty of the accounting officer to pursue debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the government are collected and banked promptly.

In the circumstances, the accuracy, completeness and existence of the receivables from exchange transactions of Kshs.34,236,699 could not be confirmed.

iv. Unsupported Receivables from Non-Exchange Transactions

The statement of financial position and as reflected in Note 16 to the financial statements reflects receivables from non-exchange transactions of Kshs.444,750 for the year under review. However, the balance was not supported by ledgers contrary to Regulation 64(6) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer or receiver of revenue or collector of revenue shall ensure adequate books of accounts are kept relating to revenue collection and management.

In the circumstances, the accuracy, completeness and existence of the receivables from non-exchange transactions of Kshs.444,750 could not be confirmed.

7. Unsupported Inventory Balance

The statement of financial position and as disclosed in Note 17 to the financial statements reflects inventory balance of Kshs.18,167,904 during the year under review. The following unsatisfactory issues were noted;

i. Unsupported Inventory Balance

Audit verification revealed that the inventory balance was not supported by ledgers, stock sheets bin cards and stock take reports completed during annual stock take contrary to Section 166(4) of the Public Procurement and Disposal Regulation, 2020 which states that for effective, economic, efficient, and transparent use of government inventory, stores and assets at all levels, an accounting officer of a procuring entity shall take full responsibility of the management or control of inventory and assets and shall ensure that preventive measures are put in place to eliminate theft security and safety threats, losses, wastage and misuse, the movement and condition of assets can be tracked, stock levels are at optimum and economical level and systems, processes and procedures both in electronic and manual form are in place.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.18,167,904 could not be confirmed.

ii. Variance in inventories

The statement of financial position and as disclosed in Note 17 to the financial statements reflects inventories balance of Kshs.17,288,679 in the 2023/2024 comparative column while the 2023/2024 audited financial statements reflects inventory balance of Kshs.17,066,399 resulting to a variance of Kshs.222,280.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.17,288,679 could not be confirmed.

8. Trade and Other Payables

The statement of financial position and as reflected in Note 21 to the financial statements reflects trade and other payables balance of Kshs.33,262,767. However, the following unsatisfactory issues were noted;

i. Variance Between the Financial Statement and Schedule Balance

Audit verification revealed trade and other payables balance of Kshs.33,262,767 which differs with the schedule balance of Kshs.8,766,289 resulting to a variance of Kshs.24,496,478.

ii. Unsupported Trade and Other Payables

Audit verification revealed that trade and other payables were not supported with invoices, local purchase order, local service order, inspection and acceptance certificate, tender documents and the management did not provide aging analysis for audit verification.

Further, it was noted that the Management did not prioritize the payment of outstanding trade and other payables carried forward from the previous year.

In addition, payment received in advance of Kshs.25,556,971 was not supported by a schedules/ ledger.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.33,262,767 could not be confirmed.

iii. Unsupported VAT Due

The statement of financial position reflects VAT due of Kshs.10,000,000 which was not referenced to any notes to the financial statements. However, the VAT due balance was not supported by ledgers/schedules contrary to Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of VAT due balance of Kshs.10,000,000 could not be confirmed.

9. Unsupported Prior Year Adjustment

The statement of changes in net assets reflects retained earnings of Kshs.36,635,530 during the year under review. However, a prior year adjustment of Kshs.26,581,501 included as a prior year adjustment to 2023/2024 financial year opening balance of Kshs.50,069,021 was not supported by any documentary evidence contrary to Section 99(3) of the Public Finance Management (National Government) Regulations,

2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates. Further, the statement of changes in net assets in 2023/2024 audited financial statements was not completed and therefore the accuracy opening balances could not be confirmed.

In the circumstances, the accuracy and completeness of retained earnings balance of Kshs.36,635,530 could not be confirmed.

10. Errors, Omissions and Non-Compliance with Public Sector Accounting Standard Board Template

Review of the financial statements compared to the Public Sector Accounting Standard Board template revealed errors, omissions and non-compliance with approved financial reporting template as detailed below;

- i. The Board of Directors information was not included in the financial statements and was also missing in the table of contents.
- ii. Statement of performance against the predetermined objectives does not include.
- iii. Environmental and sustainability reporting was not included in table of contents but it was included in page 17 to the financial statements.
- iv. Numerical page numbering has been used in Other Information section of the financial statements instead of roman numbering as per the approved financial reporting template.
- v. The ICPAK number for Head of Finance was not indicated in statement of financial performance, statement of financial position and statement of cash flows contrary to the requirement of Public Sector Accounting Standard Board template. Further review of Management Team report in the financial statements reveals that the head of accounting does not have Certified Public Accountancy qualifications.
- vi. Depreciation rates and methods used in the determination of depreciation amount was not included in the financial statements.
- vii. Age analysis for both trade and other receivables and trade and other payables were not included in the notes 16 and 21 to the financial statements.
- viii. Profile of cabinet secretary, statement by Cabinet Secretary and Statement by accounting officer were not included in the financial statements.
- ix. The statement of cash flows was not included in the table of contents.

- x. The statement of changes in net assets did not comply with Public Sector Accounting Standard Board since it starts with the year 2024/ 2025 on top instead of starting with 2022/2023 financial year.
- xi. Budget reconciliation was not included in the statement of comparison of budget and actual amounts reconcile surplus for the year with cash and cash equivalent balance.
- xii. Failure to include implementation status of auditor General recommendations.
- xiii. Appendix on projects implemented was not included in financial statements.
- xiv. Failure to include transfers from other Government entities schedule.
- xv. Lack of inter entity confirmation letters dully signed by the Head of Accounting Unit.

In the circumstances, the financial state did not comply with the approved financial reporting template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Quality Control Laboratory Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of Matter

Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipt budget and actual on comparable basis of Kshs.201,933,053 and Kshs.61,632,640 respectively resulting to underfunding of Kshs.140,300,413 or 69% of the budget. Similarly, the Laboratory spent Kshs.60,150,400 of the budgeted expenditure of Kshs.201,933,053 resulting to an under expenditure of Kshs.141,782,653 or 70%.

The underfunding and utilization affected planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the effect of the matters

described in the Basis for Adverse Opinion, I have determined that there are no other key audit matters to communicate in my report.

Other Information

The Directors are responsible for the Other Information set out on page 2 to 21 which comprise of Key Entity Information and Management, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of the Directors and Statement of Directors Responsibilities. The Other Information does not include the financial statements and my audit report thereon.

In connection with my audit on the National Quality Control Laboratory financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information and I am required to report that fact. Based on the audit procedures performed, because of the significance of the matters described in my Basis for Adverse Opinion, I confirm that the Other Information is materially inconsistent with the financial statements

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non Deduction and Remittance of Statutory Deductions

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118 which includes salaries and wages expenditure of Kshs.23,540,126. However, audit verification of the payrolls

revealed that various statutory deductions were not deducted and remitted to various statutory bodies as detailed below:

1.1 Non Remittance of Statutory Deductions

Examination of payrolls, payment vouchers and bank statements provided for audit verification revealed that various statutory deductions in respect to Social Health Authority and National Social Security Fund of Kshs.37,719 and Kshs.232,802 respectively deducted from staffs were not remitted to the respective statutory bodies' contrary to Section 19(4) of Employment Act, 2007 which states that An employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

In the circumstances, the management was in breach of the law.

1.2 Late Remittance of Statutory Deductions

Examination of payrolls and bank statements provided for audit verification revealed that statutory deductions in respect to Social Health Authority, Pay As You Earn, National Social Security Fund and Affordable Housing Levy of Kshs.188,595, Kshs.546,177, Kshs.246,914 and Kshs.82,296 respectively all totaling to Kshs.1,063,982 were remitted after the statutory deadline date contrary to Section 19(4) of Employment Act, 2007 which states that An employer who deducts an amount from an employee's remuneration in accordance with subsection (1)(a), (f), (g) and (h) shall pay the amount so deducted in accordance with the time period and other requirements specified in the law, agreement court order or arbitration as the case may be.

In the circumstances, the management was in breach of the law.

1.3 Unprocedural Payment of Staff Allowances

The statement of financial performance and as disclosed in Note 9 to the financial statements reflects employee costs of Kshs.26,005,118. Audit verification of the payroll records provided for review revealed that the management paid staff allowances of Kshs.1,780,000 to seconded staffs from the Ministry of Health despite the staff having been compensated by the Ministry of Health for the duties carried out at National Quality Control Laboratory contrary to Section 68(1) of the Public Finance Management Act, 2012 which states that an accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized and effective, efficient, economical and transparent.

In the circumstances, the management was in breach of the law.

2. Unprocedural Procurement of Repair and Maintenance

The statement of financial performance and as disclosed in Note 12 to the financial statements reflects repairs and maintenance of Kshs.2,120,458. However, audit verification revealed that procurements of Kshs.838,118 were done without requisitions from the user department and local purchase orders contrary to Section 162(4) of the Public Procurement and Assets Disposal Act,2015 which states the all procured items assigned for use by a public or state officer shall be requisitioned from and issued by the head of the procurement function of a procuring entity and Section 166(1) of the Public Procurement and Disposal Regulations Regulation 2020 which states that an accounting officer of a procuring entity shall only receive works, goods or services pursuant to Section 159 of the Act based on a purchase order, service order or signed contract.

In the circumstances, the management was in breach of the law.

3. Procurement of Goods and Services from Non- Prequalified Suppliers.

The statement of financial performance and as disclosed in Note 8 to the financial statement reflects the use of goods and services of Kshs.28,008,002 which includes consumable and telecommunication expenses of Kshs.3,507,539 and Kshs.698,416 respectively. Audit verification revealed that goods and services of Kshs1,206,529 were procured from non-prequalified suppliers contrary to Section 95 (3) of Public Procurement and Asset Disposal Act of 2015 which states that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

In the circumstances, the management was in breach of the law.

4. Lack of an Approved Budget

The statement of comparison of budget against actual amounts reflects final revenue and expenditure budget of Kshs.201,933,053. However, the budget was not approved by Board of Directors, relevant Ministry and National Treasury contrary to Section 35J(4) of Pharmacy and Poisons Act, 2012 which states that the estimates for the expenditure of the Laboratory shall be submitted through the Minister for approval by the National Treasury.

In the circumstances, the management was in breach of the law.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Uncontrolled Use of Receipts Books

The statement of financial performance and as disclosed in Note 7 to the financial statements reflects revenue from rendering of services of Kshs.51,326,020 during the year under review. Included in the balance is service fees of Kshs.50,069,020, out of which service fees of Kshs.11,069,946 collected from two different clients was receipted using the same receipt number contrary to Section 118 (2) of Public Finance Management (National Government) Regulations, 2015 which states that the accounting officer shall keep his or her stock of accountable documents whether manual under lock and key, issuing them in accordance with the daily needs of the service, and keeping an accurate up-to-date record of their use by means of continuity control sheets.

In the circumstances, there was a possible loss of revenue arising from uncontrolled use of receipt books.

2. Failure to Update Imprest Register

The statement of financial performance and as disclosed in Note 8 to the financial statements reflects use of goods and services of Kshs.28,008,002. Included in the balance is Kshs.6,201,625 in respect to travel, subsistence and other allowances. However, audit verification revealed that imprest issued of Kshs.1,431,053 was not recorded in the imprest register contrary to Section 93(4) of Public Finance Management (National Government) Regulations, 2015 which states that before issuing temporary imprests under paragraph (2) the accounting officer shall ensure that the applicant has no outstanding imprests and that the imprest has been recorded in the imprest register including the amount applied for.

In the circumstances, the management was in breach of the law.

3. Non-Surrender and Non-Recognition of Temporary Imprest

Verification of the imprest register provided for audit review revealed that an imprest of Kshs.325,200 was issued to a member of staff via imprest number 46 dated 7 February,

2025 but it had not been surrendered as at 26 November, 2025 contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station.

Further, the imprest was not recognized in as receivable in the statement of financial position.

In the circumstances, the management was in breach of the law.

4. Trade and Other Payables

The statement of financial position and as reflected in Note 21 to the financial statements reflects trade and other payables balance of Kshs.33,262,767. However, audit verification revealed that the management did not prioritize the payment of outstanding trade and other payables carried forward from the previous year of Kshs.21,507,398 contrary to Regulation 42(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which requires debt service payments to form first charge at the beginning of the financial year.

In the circumstances, the management was in breach of the law.

5. Lack of Expenditures Approval

The statement of financial performance and as disclosed in Note 8 and 12 to the financial statement reflects repair and maintenance of Kshs.2,120,458 . Included in the repairs and maintenance balance is training expenses of Kshs.334,002.However, audit verifications revealed that payment vouchers lacked critical control measures such as lack of vote book certificate details to certify that the expenditure has been entered in the vote book and that there are adequate funds to facilitate settlement, internal audit remarks, and dates which the accounting officer authorized payment. This contravenes Regulation 52(1b) of the Public Finance Management (National Government) Regulation, 2015 which states that any public officer who holds any post involving, in any degree, the management of public funds, and in particular every officer to whom is delegated the power to expend or receive such funds shall in the Government's interest and in his own interest, be aware of the following essentials of vote control procedures that AIE holders shall be made to understand that the limit to which they may spend is that prescribed by the authority and not their expectations, however justified these may seem.

In the circumstances, the management was in breach of the law.

6. Lack of Approved Policy for Doubtful Debts Provisioning

The statement of financial position and as disclosed in Note 15(a) to the financial statements reflects receivables from exchange transactions balance of Kshs.34,236,699 during the year under review. However, there was no policy for doubtful debts provisioning to guide the controls and management of the receivables from exchange

transactions contrary to Regulation 64(1) of Public Finance Management (National Government) Regulation, 2015 which states that an accounting Officer and a receiver of revenue are personally responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for, all national government revenue and other public moneys relating to their Ministries, departments or agencies and adequate measures, including legal action where appropriate, are taken to obtain payment.

In the circumstances, the accuracy and collectability of receivables from exchange transactions balance of Kshs.34,236,699 could not be confirmed.

7. Failure to attain Audit Committee Meeting Thresholds

During the financial year under review, the audit committee held only two meetings contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the audit committee shall meet at least once every three months.

In the circumstances, audit committee oversight of the laboratory operations may be compromised.

8. Lack of a Procurement Plan

Review of the various procurement documents and correspondences revealed that the Laboratory did not have an approved procurement plan during the year under review contrary to section 44(2)(c) of the Public Procurement and Asset Disposal Act, 2015 which states that in the performance of the responsibility under Subsection (1), an accounting officer shall ensure procurement plans are prepared in conformity with the medium term fiscal framework and fiscal policy objectives and, subject to subsection (3), submit them to the National Treasury.

In the circumstances, the management was in breach of the law.

9. Lack of Annual Workplan

During the year under review, Laboratory did not prepare an approved workplan for the year contrary to The National Treasury and Economic Planning Circular Ref: Treasury Circular No.7/2023 of 21 June, 2023 which states that accounting officers are required to prepare annual work plans to guide implementation of the planned activities and realization of desired outcomes and outputs and shall be aligned to approved budget.

In the circumstances, the management was in breach of the law.

10. Failure to attain Board Meetings Threshold

The statement of financial performance and as disclosed in Note 10 to the financial statements reflects board expenses of Kshs.3,332,823. Audit verification of the board

minutes revealed that three (3) instead of four (4) full board meetings were held during the financial year under review contrary to section 35 (F) of the Pharmacy and Poisons Act, 2012 which requires the board of management to meet at least four times a year. Further the board is yet to develop a board charter to guide in its operations and performance during the year.

In the circumstances, the management was in breach of the law.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of the Management and those charged with governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards Accrual Basis and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Laboratory ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the authorities which govern them and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Laboratory's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.


Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards of Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi


16 December, 2025


NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

D. Statement of Financial Performance for the year ended 30 June 2025

| | Notes | 2024-2025 | 2023-2024 |
|---|-------|-------------------|-------------------|
| | | Kshs | Kshs |
| Revenue from and Non-exchange Transactions | | | |
| Public contributions and donations | 6 | 10,199,395 | 5,974,672 |
| Revenue from Exchange Transactions | | | |
| Rendering of services | 7 | 51,326,020 | 52,837,113 |
| Other income | | 107,225 | - |
| Total revenue | | 61,632,640 | 58,811,785 |
| Expenses | | | |
| Use of goods and services | 8 | 28,008,002 | 23,261,910 |
| Employee costs | 9 | 26,005,118 | 25,465,578 |
| Board Expenses | 10 | 3,332,823 | 1,583,536 |
| Depreciation and amortization expense | 11 | 14,915,731 | 16,115,060 |
| Provision for Audit fees & Consultancy | | 684,000 | |
| Repairs and maintenance | 12 | 2,120,458 | 4,452,259 |
| Total expenses | | 75,066,131 | 70,878,343 |
| Surplus before tax | | (13,433,491) | (12,066,558) |
| Taxation (16% VAT) | | | |
| Surplus/(deficit) for the period/year | | (13,433,491) | (12,066,558) |
| Remission to National Treasury | | | |
| Net Surplus/deficit for the year | | (13,433,491) | (12,066,558) |

The notes set out on pages 30 to 74 form an integral part of these Financial Statements.
The Financial Statements set out on pages 24 to 27 were signed on behalf of the Board of Directors by:


Name: **Dr. Sultani Matendechero**


Name: **Merceline Adhiambo**


Name: **Dr. John Muturi**

ICPAK Member Number:

Date: 30/06/2025

Date: 30/06/2025

Date 30/06/2025

NATIONAL QUALITY CONTROL LABORATORY

Annual Report and Financial Statements


For the year ended June 30, 2025.

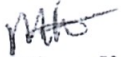
10. Statement of Financial Position as at 30 June 2025

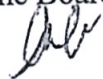
| | Notes | 2024-2025 | 2023-2024 |
|--|--------|----------------------|----------------------|
| | | Kshs | Kshs |
| Assets | | | |
| Current Assets | | | |
| Cash and Cash equivalents | 13 | 218,815 | 2,499,441 |
| Receivables from Exchange Transactions | 15 (a) | 34,236,699 | 20,266,123 |
| Receivables from Non-Exchange Transactions | 16 | 444,750 | 50,000 |
| Inventories | 17 | 18,167,904 | 17,288,679 |
| Total Current Assets | | 53,068,168 | 40,104,243 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 19 | 3,503,214,965 | 3,518,130,696 |
| Receivables from Exchange Transactions- | | - | 7,626,317 |
| Total Non- Current Assets | | 3,503,214,965 | 3,525,757,013 |
| Total Assets | | 3,556,283,133 | 3,565,861,256 |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and Other Payables | 21 | 33,362,767 | 21,507,398 |
| VAT Due | | 10,000,000 | 18,000,000 |
| Total Current Liabilities | | 43,362,767 | 39,507,398 |
| Net Assets | | | |
| Reserves- Revaluation | | 3,476,284,837 | 3,476,284,837 |
| Accumulated Surplus | | 50,069,021 | 62,135,579 |
| Equity Reserve | | | - |
| capital Fund-Deficit for the year | | (13,433,491) | (12,066,558) |
| Total Net Assets | | 3,512,920,366 | 3,526,353,858 |
| Total Net Assets and Liabilities | | 3,556,283,133 | 3,565,861,256 |

**Revaluation reserve 2024 reflects revaluation amount less net book value reported in year 2023 (3,532,121,155-55,836,318.2)*

The financial statements set out on pages 24 to 27 were signed on behalf of the Board of Directors by:


Name: Dr Sultani Matendechero
Accounting Officer


Name: Merceline Adhiambo
Head of Finance
ICPAK Member Number:
Date: 30/06/2025


Name: Dr. John Muturi
Chairman of the Board
Date: 30/06/2025

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

11. Statement of Changes in Net Assets for the year ended 30 June 2025

| | Revaluation reserve Kshs | Fair value adjustment reserve Kshs | Retained earnings Kshs | Capital/Development Grants/Fund Kshs | Total Kshs |
|--|--------------------------------|---|------------------------------|--|---------------|
| As at July 1, 2024 | 3,476,284,837 | - | 50,069,021 | - | 3,526,353,858 |
| Revaluation gain | - | - | - | - | - |
| Surplus/ deficit for the year | - | - | (13,433,491) | - | (13,433,491) |
| Prior year adjustment | - | - | - | - | - |
| As at June 30, 2025 | 3,476,284,837 | - | 36,635,530 | - | 3,512,920,366 |
| As at July 1, 2023 | 3,476,284,837 | - | 35,554,078 | - | 3,511,838,914 |
| Revaluation gain | - | - | - | - | - |
| Surplus/ deficit for the year | - | - | (12,066,558) | - | (12,066,558) |
| Prior year Adjustment | - | - | 26,581,501 | - | 26,581,501 |
| As at June 30, 2024 | 3,476,284,837 | - | 50,069,021 | - | 3,526,353,858 |
| As at July 1, 2022 | - | - | 44,742,988 | - | 44,742,988 |
| Revaluation gain | - | - | - | - | - |
| Surplus/ deficit for the year | - | - | (9,188,911) | - | (9,188,911) |
| Capital/development grants received during the year | - | - | - | - | - |
| As at June 30, 2023 | - | - | 35,554,078 | - | 35,554,078 |

*Revaluation reserve 2024 reflects revaluation amount less net book value reported in year 2023 (3,532,121,155-55,836,318.2)

*Prior year adjustment 2023 relates to adjusted opening balances.

Note:

- For items that are not common in the financial statements, the Entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.
- Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances needs to be done.

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

Statement of Cash Flows for the year ended 30 June 2025

| | | 2024-2025 | 2023-2024 |
|---|--------|--------------------|-------------------|
| | Notes | Kshs | Kshs |
| Cash flows from operating activities | | | |
| DEFICIT/SURPLUS | | (13,433,491) | (12,066,558) |
| Depreciation / amortization | 19 | 14,915,731 | 16,115,060 |
| Prior year adjustment | | - | (26,581,501) |
| Cash flows from operating activities | | | |
| Increase /decrease in receivables | 15 (a) | (6,739,009) | 26,306,888 |
| Increase/decrease in inventories | 17 | (879,225) | 24,778,542 |
| Increase/decrease in payables | 21 | 3,855,369 | 4,851,810 |
| Net cash flows from/(used in) operating activities | | 11,152,867 | 45,470,798 |
| Cash flows from Investing activities | | | |
| Purchase of Other assets | | | (2,124,600) |
| Net cash flows from/(used in) Investing activities | | | (2,124,600) |
| Net cash flows from financing Activities | | | - |
| Net increase/(decrease) in cash & Cash equivalents | | (2,280,625) | 31,279,641 |
| Cash and cash equivalents at 1 July 2024 | | 2,499,441 | 6,139,602 |
| Cash and cash equivalents at 30 June 2025 | | 218,816 | 37,419,243 |

The financial statements set out on pages 24 to 27 were signed on behalf of the Board of Directors by:

Name: Dr. Sultani Matendehero
 Accounting Officer

Name: Merceline Adhiambo
 Head of Finance
 ICPAK M/No:

Name: Dr. John Muturi
 Chairman of the Board

Date: 30/06/2025

Date: 30/06/2025

Date: 30/06/2025

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

12. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2025

Notes; Source of data is approved 2024/2025 budget

| | Original budget | Adjustments | Final budget | Actual on comparable basis | Performance difference | % of utilization |
|---|--------------------|-------------|--------------------|----------------------------|------------------------|------------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs | |
| | a | b | C=(a+b) | d | e=(c-d) | f=d/c*100 |
| Revenue | | | | | | |
| Transfers from Other Governments entities | 147,858,053 | - | 147,858,053 | - | 147,858,053 | 0% |
| Public Contributions and Donations | - | - | - | 10,199,395 | (10,199,395) | 0% |
| Rendering of Services | 54,075,000 | - | 54,075,000 | 51,326,020 | 2,748,980 | 95% |
| Sale of Goods | - | - | - | - | - | 0% |
| Other Income | - | - | - | 107,225 | (107,225) | 0% |
| Total Income | 201,933,053 | - | 201,933,053 | 61,632,640 | 140,300,413 | 31% |
| Expenses | | | | | | |
| Use of Goods and Services | 62,620,674 | - | 62,620,674 | 28,008,002 | (34,612,672) | 45% |
| Employee costs | 136,609,792 | - | 136,609,792 | 26,005,118 | (110,604,674) | 19% |
| Board | 2,030,000 | - | 2,030,000 | 3,332,823 | 1,302,823 | 164% |
| Depreciation | - | - | - | - | - | 0% |
| Repairs and Maintenance | 672,587 | - | 672,587 | 2,120,458 | 1,447,871 | 315% |
| Audit Fees | - | - | - | 684,000 | 684,000 | 0% |
| Total Expenditure | 201,933,053 | - | 201,933,053 | 60,150,400 | (141,782,653) | 30% |
| Surplus for the period | - | - | - | 1,482,240 | 282,083,066 | - |
| Capital Expenditure | - | - | - | - | - | - |

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.

BUDGET NOTES

1. Employee costs

NQCL had a budget for personnel, however the Ministry of Health did not transfer funds to NQCL account and therefore we only spent AIA

2. Board remuneration

The budget allocated for the board was not sufficient this was because the board was still new and there was no comparison budget from previous years to make estimates.

3. Repairs and maintenance

The budget utilization was 315% and this is due to old equipment that requires frequent repairs hence increasing expenditure.

4. Use of Goods and Services had utilization percentage of 45% because NQCL did not receive a grant from MOH

NOTE

NQCL has ongoing Legal case, a letter was issued indicating that NQCL should pay Kes 126,000, with a disclaimer that NQCL should wait for the final figure to be communicated.

NATIONAL QUALITY CONTROL LABORATORY

Annual Report and Financial Statements

For the year ended June 30, 2025.

13. Notes to the Financial Statements

1. General Information

The National Quality Control Laboratory is established by and derives its authority and accountability from Section 35D of the Pharmacy and Poisons Act Cap 244 of the Laws of Kenya. The National Quality Control Laboratory is wholly owned by the Government of Kenya and is domiciled in Kenya. The National Quality Control Laboratory's principal activity is to examine and test medicines for quality and carry out Good Manufacturing Practices inspections in pharmaceutical manufacturing industry premises.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical accrual basis except for the measurement at revalued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS 33) which the first-time adopter adopts accrual basis IPSASs and for which it presents its first transitional IPSAS financial statements or its first IPSAS financial statements. This will give a three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities. The other standard used is the (IPSAS 1) which is the fundamental principle underlying the preparation of financial statements including the going concern, assumptions, consistency, accrual basis of accounting and aggregation & materiality. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Laboratory.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.
Notes to the Financial Statements (Continued)

3. Adoption of New and Revised Standards

The National Quality Control Laboratory has adopted International Public Sector Accounting Standards (IPSAS 20) and (IPSAS 33) for the preparation of financial statements. Whereby (IPSAS 33) relates to the first-time adopter of accrual basis of financial reporting. Hence (IPSAS 20) which requires disclosure of information about transactions between the NQCL and its related parties. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

| Standard | Effective date and impact: |
|------------------------------------|--|
| IPSAS 20: | <p>1st July 2023</p> <p>(IPSAS 20) requires disclosure of information about transactions between the NQCL and its related parties, like PPB and KEMSA</p> |
| IPSAS 33: | <p>1st July 2023</p> <p>The financial statements have been prepared on a historical accrual basis except for the measurement at revalued amounts of certain items of property, plant and equipment, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value</p> |
| IPSAS 41: Financial Instruments | <p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an Entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets |

NATIONAL QUALITY CONTROL LABORATORY
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| Standard | Effective date and impact: |
|---|--|
| | <p>that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</p> <ul style="list-style-type: none"> • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an NQCL's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. |
| <p>IPSAS 42: Social Benefits</p> | <p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting Entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ul style="list-style-type: none"> (a) The nature of such social benefits provided by the NQCL. (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the National Quality Control Laboratory's financial performance, financial position and cash flows. <p>Although NQCL has a social responsibility of offer free training services, was not quantified in terms of finances.</p> |

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| Standard | Effective date and impact: |
|---|--|
| <p>Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments</p> | <p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>This standard was not used since NQCL did not borrow funds.</p> |
| <p>Other improvements to IPSAS</p> | <p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> ● <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> ● <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> ● IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which is applicable from 1st January 2023.</p> |

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| Standard | Effective date and impact: |
|--|--|
| IPSAS 43 | <p><i>Applicable 1st January 2025</i></p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of NQCL.</p> <p>The new standard requires entities to recognize, measure and present information on right of use assets and lease liabilities.</p> <p>This standard was not applied since NQCL did not have any lease during the financial year.</p> |
| IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations | <p><i>Applicable 1st January 2025</i></p> <p>The Standard requires,</p> <p>Assets that meet the criteria to be classified' as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and:</p> <p>Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The standard was not applied during the financial year 2022- 2023.</p> |

i.

ii. *Early adoption of standards*

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4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The National Quality Control Laboratory recognizes revenues from fees, when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the National Quality Control Laboratory and the fair value of the asset can be measured reliably.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized when earned. (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the National Quality Control Laboratory and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

ii) Revenue from exchange transactions

Rendering of services

The National Quality Control Laboratory recognizes revenue when it is earned. The stage of completion is measured by generation of certificate.

NATIONAL QUALITY CONTROL LABORATORY

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably, and it is probable that the economic benefits or service potential associated with the transaction will flow to the National Quality Control Laboratory.

a) Budget information

The original budget for FY 2024-2025 was approved by the The National Treasury and adopted by the Board of Management.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Budget information (continued)

The financial statements are prepared on an accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis.

b) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the National Quality Control Laboratory operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable Entity and the same taxation authority.

NATIONAL QUALITY CONTROL LABORATORY
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

i) When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

ii) When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

c) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a useful period. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of recognition. Transfers are made to or from investment property only when there is a change in use.

d) Property, plant and equipment

All the Property, plant and equipment for National Quality Control Laboratory which includes land, equipment and furniture and fittings was valued and a valuation report issued. NQCL adopted valuation report based of asset shelf or useful life to depreciate the assets. These assets are stated at valuation amounts less accumulated depreciation.

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e) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the National Quality Control Laboratory. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The National Quality Control Laboratory also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition. Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit. An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the National Quality Control Laboratory will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the National Quality Control Laboratory. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term. However during the financial year 2024- 2025 NQCL did not have leased obligation.

f) Intangible assets

Nqcl has acquired LIMS more than 10 year ago. The LIMS was valued and the valuer gave one year useful life for the system, which is over and therefore has zero value in the current financial year.

g) Research and development costs

The National Quality Control Laboratory did not incur any research costs. However, development costs on an individual project are recognized as intangible assets when the National Quality Control Laboratory can demonstrate:

- I. The technical feasibility of completing the asset so that the asset will be available for use or sale
- II. Its intention to complete and its ability to use or sell the asset
- III. How the asset will generate future economic benefits or service potential
- IV. The availability of resources to complete the asset
- V. The ability to measure reliably the expenditure during development.

Notes to the Financial Statements (Continued)

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Summary of Significant Accounting Policies (Continued)

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) Financial instruments

a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and Receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The National Quality Control Laboratory determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the National Quality Control Laboratory has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

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Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The National Quality Control Laboratory assesses at each reporting date whether there is objective evidence that a financial asset or financial assets is impaired. A financial asset or an Entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- i) The debtors or an Entity of debtors are experiencing significant financial difficulty.
- ii) Default or delinquency in interest or principal payments
- iii) The probability that debtors will enter bankruptcy or other financial reorganization.
- iv) Observable data indicates a measurable decrease in estimated future cash flows (e.g., changes in arrears or economic conditions that correlate with defaults)

b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The National Quality Control Laboratory determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.
Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- i) Raw materials: purchase cost using the weighted average cost method.
- ii) Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity but excluding borrowing costs.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost. Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the *Entity*.

j) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

k) Contingent liabilities

The Entity does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

l) Contingent assets

The Entity does not recognize a contingent asset but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

m) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. Revaluation reserve is maintained for the purpose revaluing assets that belong to NQCL.

n) Changes in accounting policies and estimates

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

o) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Entity pays fixed contributions into a separate Entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. NQCL also pays gratuity to all contracted staff upon the end of contractual period.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

p) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of the financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

q) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance, however NQCL did not borrow any funds during the financial year.

NATIONAL QUALITY CONTROL LABORATORY
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For the year ended June 30, 2025.
Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

r) Related parties

NQCL regards a related party as a person or an Entity with the ability to exert control individually or jointly, or to exercise significant influence over the *Entity*, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

s) Service concession arrangements

NQCL analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the *Entity* recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price.

In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the *Entity* also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

t) Cash and cash equivalents

NQCL has a Bank account with National bank of Kenya. At the end of every financial year bank balance certificates is issued to indicate the cash at Bank as at 30th June. The Bank balance on the certificate forms our cash and cash equivalent, since we do not hold Petty cash.

u) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

v) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2025

NATIONAL QUALITY CONTROL LABORATORY
Annual Report and Financial Statements
For the year ended June 30, 2025.
Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies (Continued)

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, due change from cash to accrual basis of reporting some estimates may not be very accurate, but that has been take care of by IPSAS 33. about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

NATIONAL QUALITY CONTROL LABORATORY

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Notes to the Financial Statements (Continued)

Significant Judgments and Sources of Estimation Uncertainty (Continued)

Useful lives and residual value

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- a) The condition of the asset based on the assessment of experts employed by the Entity.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset

Provisions

Provisions were not made since the Board Of Directors was still new and they had not been involved the budget process. The budget was approved by the National Treasury and adopted by the board as issued.

NATIONAL QUALITY CONTROL LABORATORY
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Notes to the Financial Statements (Continue)
6. Public Contributions and Donations

| Description | 2024-2025 | 2023-2024 |
|---|----------------------|---------------------|
| | Kshs | Kshs |
| The Green Belt Movement | 0.00 | 0.00 |
| Health Donations | 0.00 | 0.00 |
| Research Donations | 0.00 | 0.00 |
| Other Public Donations (Donations) | 10,199,394.86 | 5,974,672.21 |
| Total Transfers and Sponsorships | 10,199,394.86 | 5,974,672.21 |
| Reconciliation Of Public Contributions and Donations | | |
| Balance Unspent at Beginning of The Year | 0.00 | 0.00 |
| Current Year Receipts | 0.00 | 0.00 |
| Conditions Met - Transferred to Revenue | 0.00 | 0.00 |
| Conditions To Be Met - Remain Liabilities | 0.00 | 0.00 |

(Provide brief explanation for this revenue)

NATIONAL QUALITY CONTROL LABORATORY
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For the year ended June 30, 2025.
Notes to the Financial Statements (Continued)

7. Rendering Of Services

| Description | 2024-2025 | 2022-2023 |
|---|-------------------|----------------------|
| | KShs | KShs |
| Waste Management (Solid Waste) | 0.00 | 0.00 |
| Waste Management (Sewerage & Sanitation) | | 0.00 |
| Service Fees | 50,069,020.87 | 52,837,112.99 |
| Training services | 720,500 | 0.00 |
| Quality Assurance | 0.00 | 0.00 |
| Total Revenue from The Rendering Of Services | 51,326,020 | 52,837,112.99 |

This is the amount charged for testing medicines and HPTs for clients. Certificates of Analysis are issued after the tests are completed.

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For the year ended June 30, 2025.
Notes to the Financial Statements (Continue)

8. Use of Goods and Services

| Description | 2024-2025 | 2023-2024 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Subscriptions | 84,631 | 527,600 |
| Admin Fees-bank charges | 160,979 | 174,651 |
| Audit Fees | - | 1,368,000 |
| Consumables | 3,507,539 | 1,857,144 |
| Fuel and Oil | 107,024 | 126,673 |
| Insurance | - | 2,100,000 |
| Chemicals | 4,857,461 | 7,349,201 |
| Utilities | 1,346,274 | 1,111,124 |
| Printing and Stationery | 1,856,929 | 1,862,087 |
| Donations | 8,853,121 | - |
| Telecommunication | 698,416 | 1,637,259 |
| Training | 334,002 | 713,044 |
| Travel, Subsistence & Other Allowances* | 6,201,625 | 3,756,455 |
| Other General Operating Expenses | - | 678,673 |
| Total | 28,008,002 | 23,261,911 |

9. Employee Costs

| Description | 2024-2025 | 2023-2024 |
|---|-------------------|-------------------|
| | Kshs | Kshs |
| Salaries and wages | 23,540,126 | 12,458,284 |
| Employer contribution to pension schemes | - | 340,200 |
| Travel, accommodation, subsistence, & other allowances | - | 1,260,000 |
| Housing benefits and allowances | - | 3,706,200 |
| Gratuity | 2,464,992 | 4,001,684 |
| Other employee *6 MOH Staff Salaries and NQCI Extraneous, risk & leave allowances | - | 3,699,210 |
| Employee costs | 26,005,118 | 25,465,578 |

10. Board Expenses

| Description | 2024-2025 | 2023-2024 |
|-------------------------------|------------------|------------------|
| | Kshs | Kshs |
| Chairman/Directors' Honoraria | 3,332,823 | - |
| Sitting Allowances | - | 530,736 |
| Induction and Training | - | 480,000 |
| Travel and Accommodation | - | 452,800 |
| Other Allowances | - | 120,000 |
| Total | 3,332,823 | 1,583,536 |

NATIONAL QUALITY CONTROL LABORATORY**Annual Report and Financial Statements**

For the year ended June 30, 2025.

Notes to the Financial Statements (Continued)**11. Depreciation and Amortisation Expense**

| Description | 2024-2025 | 2023-2024 |
|--|----------------------|----------------------|
| | Kshs | Kshs |
| Property, plant and equipment | 14,915,730.93 | 16,115,059.73 |
| Intangible assets | 0 | 0.00 |
| Investment property carried at cost | 0 | 0.00 |
| Total depreciation and amortisation | 14,915,730.93 | 16,115,059.73 |

12. Repairs and Maintenance

| Description | 2024-2025 | 2023-2024 |
|---------------------------------------|---------------------|---------------------|
| | Kshs | Kshs |
| Property | | 0.00 |
| Investment Property – Earning Rentals | | 0.00 |
| Equipment and Machinery | | 0.00 |
| Vehicles | | 0.00 |
| Furniture and Fittings | | 0.00 |
| Computers and Accessories | | 0.00 |
| Others | 2,120,458.00 | 4,452,259.00 |
| Total Repairs and Maintenance | 2,120,458.00 | 4,452,259.00 |

13. Cash and Cash Equivalents

| Description | 2024-2025 | 2023-2024 |
|--|-------------------|------------------|
| | Kshs | Kshs |
| Current Account | 218,815.90 | 409,394.57 |
| Savings Account | | 0.00 |
| On - Call Deposits | | 0.00 |
| Fixed Deposits Account | | 0.00 |
| Staff Car Loan/ Mortgage | | 0.00 |
| Others(Specify) | | 0.00 |
| Total Cash And Cash Equivalents | 218,815.90 | 2,499,441 |

NATIONAL QUALITY CONTROL LABORATORY
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For the year ended June 30, 2025.

Notes to the Financial Statements (Continued)

14 (a) Detailed Analysis of the Cash and Cash Equivalents

| | | 2024-2025 | 2023-2024 |
|---------------------------|----------------|-------------------|------------------|
| Financial Institution | Account number | Kshs | Kshs |
| a) Current Account | | | |
| National Bank of Kenya | | 218,815.90 | 2,499,441 |
| Grand Total | | 218,815.90 | 2,499,441 |

15 Receivables from Exchange Transactions

15 (a) Receivables from Exchange Transactions (Current)

| | 2024-2025 | 2023-2024 |
|--|-------------------|-------------------|
| Description | Kshs | Kshs |
| Receivables | | |
| Service, Water and Electricity Debtors | 0.00 | 0.00 |
| Other Exchange Debtors- AIA Fees | 28,223,579 | 20,266,123 |
| Total Current Receivables | 28,223,579 | 20,266,123 |

15 (b) Receivables from Exchange Transactions (Long-term)

| | 2024-2025 | 2023-2024 |
|--|-------------------|----------------------|
| Description | Kshs | Kshs |
| Total receivables | 28,223,579 | 0.00 |
| Service, water and electricity debtors | 0.00 | 0.00 |
| Other exchange debtors- AIA Fees | 6,013,120 | 7,626,317.00 |
| Total non-current receivables | 6,013,120 | 7,626,317.00 |
| Total receivables (a+b) | 34,236,699 | 28,182,720.23 |

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Notes to the Financial Statements (Continued)

16 Receivables from Non-Exchange Transactions

| Description | 2024-2025 | 2023-2024 |
|---|-------------------|------------------|
| | Kshs | Kshs |
| Property tax debtors | | 0.00 |
| Levies, fines, and penalties | | 0.00 |
| Licences, fees and permits | | 0.00 |
| Other debtors (non-exchange transactions) | 444,750.00 | 50,000.00 |
| Less: impairment allowance | | (0.00) |
| Total current receivables | 444,750.00 | 50,000.00 |

17. Inventories

| Description | 2024-2025 | 2023-2024 |
|--|-------------------|----------------------|
| | Kshs | Kshs |
| Medical supplies and Consumable stores | 18,167,904 | 17,288,679.28 |
| Total inventories at the lower of cost and net realizable value | 18,167,904 | 17,288,679.28 |

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Notes to the Financial Statements (Continued)

18. Movement of Equity Investments

| Impairment allowance/provision | 2024-2025 | 2023-2024 |
|--|-------------|-------------|
| | Kshs | Kshs |
| At the beginning of the year | 0.00 | 0.00 |
| Purchase of investments in the year | 0.00 | 0.00 |
| Sale of investments during the year | (0.00) | (0.00) |
| Increase /(decrease) in fair value of investments | 0.00 | 0.00 |
| At the end of the year | 0.00 | 0.00 |

NQCL did not have any investments during the financial year 2024/2025

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Notes to the Financial Statements (Continued)

19 Property, Plant and Equipment 2024-2025

| | Land | Furniture and fittings | Computers & printers | Other Assets, Lab Equipment | Total |
|--|---------------|------------------------|----------------------|-----------------------------|---------------|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| Cost | | | | | |
| As At 1st July 2024 | 3,500,000,000 | 828,180 | 1,152,072 | 16,150,444 | 3,518,130,696 |
| Revaluation | - | - | - | - | - |
| Disposals | - | - | - | - | - |
| As At 1st July 2024 | 3,500,000,000 | 828,180 | 1,152,072 | 16,150,444 | 3,518,130,696 |
| Depreciation And Impairment | - | (82,818) | (1,075,872) | (13,757,041) | (14,915,731) |
| As At 30th June 2025 | 3,500,000,000 | 745,362 | 76,200 | 2,393,403 | 3,503,214,965 |
| Impairment | - | - | - | - | - |
| Transfers/ Adjustments | - | - | - | - | - |
| As At 1st July 2023 | 3,500,000,000 | 920,200 | 3,266,684 | 30,058,872 | 3,534,245,756 |
| Additions | - | - | - | - | - |
| Depreciation | - | (92,020) | (2,114,612) | (13,908,428) | (16,115,060) |
| Disposals | - | - | - | - | - |
| Impairment | - | - | - | - | - |
| As At 30th June 2024 | 3,500,000,000 | 828,180 | 1,152,072 | 16,150,444 | 3,518,130,696 |

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Valuation

Land and buildings/ Equipment (be specific) were valued in line with the National Assets and Liabilities Management Policy and Guidelines (Issued 30th June 2020). These amounts were adopted on 16/8/2023.

20 (b) Property, Plant and Equipment at Cost

The freehold land, buildings and other assets were stated on the net book value after the revalued amounts.

NATIONAL QUALITY CONTROL LABORATORY
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Notes to the Financial Statements (Continued)

21. Trade and Other Payables

| Description | 2024-2025 | 2023-2024 |
|--|----------------------|----------------------|
| | Kshs | Kshs |
| Trade Payables | 4,971,610.44 | 00.00 |
| Payments received in advance- Analysis fee | 25,556,970.76 | 21,507,398.15 |
| Employee Payables | 2,834,186.00 | 0.00 |
| Third-party payments | | 0.00 |
| Other Payables -OAG | | 0.00 |
| Total trade and other Payables | 33,362,767.20 | 21,507,398.15 |

Notes to the Financial Statements (Continued)

NATIONAL QUALITY CONTROL LABORATORY
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Retirement benefit Asset/ Liability

National Quality Control Laboratory doesn't have a defined benefit scheme since there are no permanent and pensionable employees. The few permanent and pensionable staff at NQCL are deployed from the Ministry of Health, and the rest are on contract basis. The Contracted staff are paid gratuity of 31% of their basic salary at the end of the contract. As at 30th June every employee whose contract had come an end was paid his/ her gratuity.

The Entity also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The Entity's obligation under the scheme is limited to Voluntary contributions legislated from time to time. Other than NSSF NQCL does not maintain a defined contributory plan or a defined benefit plan as it is yet to adopt its scheme of service. This because some staff are posted here from the Ministry of Health while the others are contracted, interns or casuals.

Notes to the Financial Statements (Continued)

NATIONAL QUALITY CONTROL LABORATORY
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23. Cash Generated from Operations

| | 2024-2025 | 2023-2024 |
|--|---------------------|---------------------|
| | Kshs | Kshs |
| Surplus for the year before tax | (13,433,491) | (12,066,558) |
| Adjusted for: | | |
| Depreciation | 14,915,731 | 16,115,060 |
| Working capital adjustments | | |
| Increase in inventory | (879,225) | 24,778,542 |
| Increase in receivables | (6,739,009) | 18,680,571 |
| Increase in deferred income | | |
| Decrease in Trade payables | 3,855,369 | (6,248,190) |
| increase in payments staff payables | - | (835,254) |
| Net cash flow from operating activities | (2,280,625) | 40,424,171 |

24. Financial Risk Management

The Entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Entity's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Entity does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Entity's financial risk management objectives and policies are detailed below:

i) Credit risk

The Entity has exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Credit risk arises long over due receivables that are yet to be paid by our debtors.

Financial Risk Management

NATIONAL QUALITY CONTROL LABORATORY

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The carrying amount of financial assets recorded in the financial statements representing the Entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

| | Total amount | Fully performing | Past due | Impaired |
|--|----------------------|----------------------|---------------------|-------------|
| | Kshs | Kshs | Kshs | Kshs |
| As at 30 June 2025 | | | | |
| Receivables from exchange transactions | 34,236,699 | 28,223,579 | 6,013,120.00 | 0.00 |
| Receivables from non-exchange transactions | 0.00 | 0.00 | 0.00 | 0.00 |
| Bank balances | 218,815.90 | 218,815.90 | 0.00 | 0.00 |
| Total | 34,455,514.9 | 28,442,394.90 | 6,013,120.00 | 0.00 |
| As at 30 June 2024 | | | | |
| Receivables from exchange transactions | 28,182,720.23 | 20,556,403.23 | 7,626,317.00 | 0.00 |
| Receivables from non-exchange transactions | | | 0.00 | 0.00 |
| Bank balances | 409,394.57 | 409,394.57 | 0.00 | 0.00 |
| Total | 28,592,114.80 | 20,965,797.80 | 7,626,317.00 | 0.00 |

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Notes to the Financial Statements (Continued)

Financial Risk Management

| | Less than 1 month | Between 1-3 months | Over 5 months | Total |
|-------------------------------|----------------------|-----------------------|----------------------|----------------------|
| | Kshs | Kshs | Kshs | Kshs |
| As at 30 June 2025 | | | | |
| Trade payables | 0.000 | 4,971,610.44 | 25,556,970.76 | 30,528,581.20 |
| Current portion of borrowings | 0.00 | 0.00 | 0.00 | 0.00 |
| Provisions | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred income | 0.00 | 0.00 | 0.00 | 0.00 |
| Employee statutories | 2,834,186 | 0.00 | 0.00 | 2,834,186 |
| Total | 2,834,186 | 0.00 | 30,528,581.20 | 33,362,767.20 |
| As at 30 June 2024 | | | | |
| Trade payables | | 9,559,900 | 11,947,498.15 | 21,507,398.15 |
| Current portion of borrowings | 0.00 | 0.00 | 0.00 | 0.00 |
| Provisions | 0.00 | 0.00 | 0.00 | 0.00 |
| Deferred income | 0.00 | 0.00 | 0.00 | 0.00 |
| Employee benefit obligation | | 0.00 | 0.00 | 0.00 |
| Total | | 9,559,900.00 | 11,947,498.15 | 21,507,398.15 |

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Although customers under the fully performing category are paying their debts as they continue trading, some debts are Long overdue. The credit risk associated with these receivables is substantial. However, we have carried out debt circularization and communicated to our debtors to pay the debts. with the support and advice from the board Members, we hopeful that the debts will be paid.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Entity's directors, who have built an appropriate liquidity risk management framework for the management of the Entity's short, medium and long-term funding and liquidity management requirements. The Entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the Entity under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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Financial Risk Management

iii) **Market risk**

The Entity has put in place an internal audit function to assist it in assessing the risk faced by the Entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee. The Entity's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Entity's exposure to market risks or the manner in which it manages and measures the risk.

a) **Foreign currency risk**

The *Entity* has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate. The *Entity* manages foreign exchange risk from future commercial transactions and recognized assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

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Notes to the Financial Statements (Continued)

Financial Risk Management

Financial Risk Management

The carrying amount of the *Entity's* foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

FY 2025

| | In Kshs | Other currencies | Total |
|---|-------------------|------------------|-------------------|
| | Kshs | Kshs | Kshs |
| As At 30 June 2024 | | | |
| Financial Assets- stock | 18,167,904 | 0.00 | 18,167,904 |
| Investments | 0.00 | 0.00 | 0.00 |
| Cash | 218,815.90 | 0.00 | 218,815.90 |
| Debtors | 34,681,448.75 | 0.00 | 34,681,448.75 |
| Total Financial Assets | 53,069,169 | 0.00 | 53,069,169 |
| Financial Liabilities | | | |
| Trade And Other Payables | 43,362,767 | 0.00 | 43,362,767 |
| Borrowings | 0.00 | 0.00 | 0.00 |
| Total Financial Liabilities | 43,362,767 | 0.00 | 43,362,767 |
| Net Foreign Currency Asset/(Liability) | | 0.00 | |

Foreign currency sensitivity analysis

NQCL doesn't have any assets or liabilities in foreign currency as at now, and therefore there is minimum risk of losing money on an investment in case of change in exchange rates.

Notes To The Financial Statements (Continued)

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Financial Risk Management

As at the end of this financial year the ratio of financial assets to financial liability was 1.2:1. That means that NQCL has ability to meet its obligations. Furthermore NQCL has no borrowings hence there is no defaulting on loan or bonds payments.

| | Change in currency rate | Effect on Profit before tax | Effect on Equity/Net assets |
|-------------|----------------------------|--------------------------------|--------------------------------|
| | Kshs | Kshs | Kshs |
| 2023 | | | |
| Euro | 10% | 0.00 | 0.00 |
| USD | 10% | 0.00 | 0.00 |
| 2022 | | | |
| Euro | 10% | 0.00 | 0.00 |
| USD | 10% | 0.00 | 0.00 |

b) **Interest rate risk**

Management of interest rate risk

Currently NQCL does not have any loan to pay interest, however to manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Financial Risk Management

Fair value of financial assets and liabilities

a) **Financial instruments measured at fair value.**

Determination of fair value and fair values hierarchy

IPSAS 30 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *Entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Notes to the Financial Statements (Continued)

NATIONAL QUALITY CONTROL LABORATORY

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● Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

●

● Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *Entity* considers relevant and observable market prices in its valuations where possible.

Financial Risk Management

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|---------|------------------|---------|------------------|
| | Kshs | Kshs | Kshs | Kshs |
| As At 30 June 2025 | | | | |
| Financial Assets | | | | |
| Quoted Equity Investments | 0.00 | 0.00 | 0.00 | 0.00 |
| Non- Financial Assets | | | | |
| Investment Property | 0.00 | 0.00 | 0.00 | 0.00 |
| Land And Buildings | | 3,500,000,000.00 | 0.00 | 3,500,000,000.00 |
| | 0.00 | 3,500,000,000.00 | 0.00 | 3,500,000,000.00 |
| As At 30 June 2024 | | | | |
| Financial Assets | | | | |
| Quoted Equity Investments | 0.00 | 0.00 | 0.00 | 0.00 |
| Non- Financial Assets | | | | |
| Investment Property | 0.00 | 0.00 | 0.00 | 0.00 |
| Land And Buildings | | 3,500,000,000.00 | 0.00 | 3,500,000,000.00 |
| | 0.00 | 3,500,000,000.00 | 0.00 | 3,500,000,000.00 |

There were no transfers between levels 1, 2 and 3 during the year. Disclosures of fair values of financial instruments have been measured at fair value. This is because the carrying amounts were valued at fair value prices.

Notes to the Financial Statements (Continued)

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25. Related Party Disclosures

Nature of related party relationships

Entities and other parties related to the *Entity* include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

Government of Kenya

The Government of Kenya is the principal shareholder of the *Entity*, holding 100% of the *Entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the *Entity*, both domestic and external.

Other related parties include:

- i) The Parent Ministry..
- ii) Board of directors.
- iii) Key management

| | 2024-2025 | 2023-2024 |
|---|-------------|---------------------|
| | Kshs | Kshs |
| Transactions with related parties | | |
| a) Sales to related parties | | |
| Sales of electricity to govt agencies | 0.00 | 0.00 |
| Rent income from the government. Agencies | 0.00 | 0.00 |
| Water sales to govt. Agencies | 0.00 | 0.00 |
| Others sales of services to KEMSA & PPB | | 6,215,100.00 |
| Total | | 6,215,100.00 |
| B) purchases from related parties | | |
| Purchases of electricity from KPLC | 0.00 | 0.00 |
| Purchase of water from govt service providers | 0.00 | 0.00 |
| Rent expenses paid to govt agencies | 0.00 | 0.00 |
| Training and conference fees paid to govt. Agencies | 0.00 | 0.00 |
| Others | 0.00 | 0.00 |
| Total | 0.00 | 0.00 |
| b) Grants /transfers from the government | | |
| Grants from national govt | 0.00 | 0.00 |

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| | 2024-2025 | 2023-2024 |
|--|-------------|----------------------|
| | Kshs | Kshs |
| Grants from county government | 0.00 | 0.00 |
| Donations in kind | 0.00 | 0.00 |
| Total | 0.00 | 0.00 |
| c) Expenses incurred on behalf of related party | | |
| Payments of salaries and wages for employees | 0.0 | 31,444,501.00 |
| Payments for goods and services for xxx | 0.00 | 29,847,395.00 |
| Total | 0.00 | 61,291,896.00 |
| d) Key management compensation | | |
| Directors' emoluments | 0.00 | 0.00 |
| Compensation to key management | 0.00 | 0.00 |
| Total | 0.00 | 0.00 |

NATIONAL QUALITY CONTROL LABORATORY**Annual Report and Financial Statements****For the year ended June 30, 2025.****Notes to the Financial Statements (Continued)****26. Segment Information**

National Quality Control Laboratory does not have a subsidiary, a branch or a department.

27. Contingent Assets and Contingent Liabilities**Contingent Assets**

| | 2023-2024 | 2022-2023 |
|--|-------------|-------------|
| | Kshs | Kshs |
| Contingent Assets | | |
| Insurance Reimbursements | 0.00 | 0.00 |
| Assets Arising from Determination Of Court Cases | 0.00 | 0.00 |
| Reimbursable Indemnities and Guarantees | 0.00 | 0.00 |
| Receivables From Other Government Entities | 0.00 | |
| Others (Specify) | 0.00 | 0.00 |
| Total | 0.00 | 0.00 |

(Give details)

Contingent Liabilities

| | 2023-2024 | 2022-2023 |
|--|---------------|-------------|
| | Kshs | Kshs |
| Contingent Liabilities | | |
| Court Case against the Entity | 0.00 | 0.00 |
| Bank Guarantees in Favour of Subsidiary | 0.00 | 0.00 |
| Contingent Liabilities arising from Contracts Including PPPs | 0.00 | 0.00 |
| Others (16% VAT to KRA) | 10,000,000.00 | 0.00 |
| Total | 0.00 | 0.00 |

(Give details)

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Notes to the Financial Statements (Continued)

28. Capital Commitments

| Capital Commitments | 2023-2024 | 2022-2023 |
|-------------------------------|-------------|-------------|
| | Kshs | Kshs |
| Authorised for | 0.00 | 0.00 |
| Authorised and Contracted for | 0.00 | 0.00 |
| Total | 0.00 | 0.00 |

(NB: Capital commitments are commitments to be carried out in the next financial year and are disclosed in accordance with IPSAS 17. Capital commitments may be those that have been authorised by the board but at the end of the year had not been contracted or those already contracted for and ongoing)

29 Surplus Remission

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into the Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. In line with this legal requirement the Entity remitted Kshs 0.00 (FY 2023 Kshs 0.00). Or The Entity did not make any surplus during the year (FY 2024 Nil) and hence no remittance to the Consolidated Fund.

The Surplus Remission has been computed as follows:

| | 2023-2024 | 2022-2023 |
|--|-----------|-----------|
| | Kshs | Kshs |
| Surplus for the period | 0.00 | 0.00 |
| Less: Allowable deductions by NT | (0.00) | (0.00) |
| 90% Computation (Included in Statement of Financial Performance) | 0.00 | 0.00 |

Surplus Remission Payable

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| | 2023-2024 | 2022-2023 |
|--------------------------------------|-------------|-------------|
| | Kshs | Kshs |
| Payable at the beginning of the year | 0.00 | 0.00 |
| Paid during the year | (0.00) | (0.00) |
| Payable at end of the year | 0.00 | 0.00 |

NATIONAL QUALITY CONTROL LABORATORY
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Notes to the Financial Statements (Continued)

30 Taxation

| | 2024-2025 | 2023-2024 |
|--|-----------|-------------|
| | Kshs | Kshs |
| At beginning of the year - Tax reinstated 30 th June 2025 | 0.00 | 406,388 |
| Income tax charge for the year (note 27) | 0.00 | 5,478,807 |
| Under/(over) provision in prior year/s (note 27) | 0.00 | 0.00 |
| Income tax paid during the year | (0.00) | (5,478,807) |
| At end of the year | 0.00 | 406,388 |

[Provide short appropriate explanations as necessary]

Notes on TAXATION

| | 2024-2025 | 2023-2024 |
|---|-----------|--------------|
| | Kshs | Kshs |
| Taxation as at 30 th June 2025 | 0.00 | 406,388.00 |
| Error | 0.000 | (406,388.00) |
| Balance c/f | 0.00 | 0.00 |

NATIONAL QUALITY CONTROL LABORATORY

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31 Deferred Tax Liability

Notes to the Financial Statements (Continued)

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax

Rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

(In ordinary circumstances public sector entities under IPSAS are not expected to pay taxes on surplus funds. However, in specific cases where this is applicable an organization is supposed to seek guidance on accounting for income taxes from IAS 12)

32 Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

33 Ultimate And Holding Entity

National Quality Control Laboratory is a State Corporation/ or a Semi- Autonomous Government Agency under the Ministry of Health. Its ultimate parent is the Government of Kenya.

34 Currency

The financial statements are presented in Kenya Shillings (Kshs).

Handwritten marks and scribbles in the top right corner.

National Quality Control Laboratory
Trial Balance as at 30th June 2025

| | Debit | Credit |
|----------------------------------|------------------|------------------|
| Bank Balance | 218,815.00 | |
| Land, Plant and Equipments | 3,503,214,964.87 | |
| Trade Debtors and other debtors | 34,681,449.00 | |
| Inventories | 18,167,904.00 | |
| Trade payables | | 33,362,767.20 |
| VAT Tax Due | | 10,000,000.00 |
| Revaluation Reserve | | 3,476,284,836.80 |
| Accumulated Fund | | 50,069,020.87 |
| Income from Non operations - MOH | | 10,199,395.00 |
| Analysis Fees (AIA) | | 50,605,520.00 |
| Training Fees | | 720,500.00 |
| (Other incomes) Imprest Refunds | | 107,225.00 |
| Personnel expenses | 26,005,117.95 | |
| Accommodation | 6,201,625.00 | |
| Consumables | 1,010,935.00 | |
| Subscription | 84,631.00 | |
| Reagents | 4,857,461.44 | |
| Repair Maintenance | 2,120,458.00 | |
| Training | 334,002.00 | |
| Printing /Stationary | 1,856,929.00 | |
| Communication | 698,416.00 | |
| General Expenses | 2,258,308.00 | |
| Office expenses | 238,296.00 | |
| Fuel /Gas | 107,024.00 | |
| Bank Charges | 160,979.08 | |
| Board Members | 3,332,823.00 | |
| Audit | 684,000.00 | |
| Depreciation | 14,915,730.93 | |
| Utilities MOH | 1,346,274.00 | |
| Utilized Donated supplies- MOH | 8,853,121.00 | |
| | 3,631,349,264.27 | 3,631,349,264.87 |

